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SUBJECT: WTO UPDATE FOR YEMEN - FIVE YEARS AND COUNTING

1. Summary/Comment. While accession to the World Trade Organization is still five to seven years out, with the first working party meeting to be held in Geneva on November 30 Yemen will enter a new, more difficult stage of trade negotiations. Through the Integrated Framework (IF) process sponsored by the Dutch, the ROYG and donors developed an action plan for joining the WTO. Supporters of accession now must garner support from ROYG Ministries, Parliament, and powerful business interests to adopt measures necessary to accede. End summary/comment.

First Working Party Meeting in November

2. Yemen was granted observer status to the WTO in 1999. In July 2000 the WTO set up a working party process for Yemen's accession. Yemen submitted its Memorandum of Foreign Trade Regime in 2000 and will hold its first working party meeting November 30 in Geneva. Nagib Hamim, WTO Technical Advisor at the Ministry of Industry and Trade, (MIT) explained, "this is when the hard work begins." Hamim will travel to Washington as part of the ROYG delegation to the Trade Investment Framework Agreement (TIFA) talks in November. MIT has the lead in preparing for accession and acts as secretariat for the Council of Ministers that approves all major documents.

Integrated Framework Rejuvenated?

3. Yemen concluded the diagnostic phase of the World Trade Organization's Integrated Framework (IF) Process with the completion of the Diagnostic Trade Integration Study in June 2003. Due to bureaucratic delays, Yemen is now beginning to implement the action plan. The ROYG is planning to conduct an IF workshop to integrate WTO accession planning with Yemen's most significant economic planning document: the Poverty Reduction Strategy (PRS) for 2006-2010. Until it is integrated into the PRS, WTO accession will remain an afterthought to those outside of the Ministry of Industry and Trade.

4. The European Union is presently spending seven million Euros over five years to help Yemen accede by providing training, computers and technical advisors. USG assistance compliments the EU assistance program and will likely focus on Customs Valuation reform and reforming Yemen's competition law.

What Must Yemen do?

5. The most significant step the ROYG will have to take is garnering Parliamentary support for several key legislative changes, to include:
-- Upgrading IPR laws (septel);
-- Redrafting the competition law to dilute the power of big companies;
-- Revising a new commercial law that limits non-Yemenis to a 49 percent share a company (septel);
-- Opening the telecommunications and financial sectors' and
-- Amending provisions of the labor law that hinder private companies from hiring persons of their choice and limit the number of foreigners to 10 percent of total employment

6. Aside from legal amendments, Yemen must also "bind its tariff structure," and implement the General Investment Law of 2002 which provides for equal treatment of foreigners and domestic investors and protects against nationalization.

7. Planning for WTO accession is beginning to gain momentum outside of the Ministry of Industry and Trade. The upcoming Trade Investment Framework Talks have encouraged Deputy Prime Minister Sofan to take up the trade reform and he is actively encouraging other ministries to adopt necessary changes for accession. Most experts agree that WTO accession is "stretching" limited ROYG resources due to lack of well trained civil servants, limited English capacity, and coordination problems between ministries.

18. Yemen's powerful business community is fearful of accession and is capable of blocking necessary legislative reforms if they fear their business interests might be harmed. In 2004, the Yemen Federation of Chambers of Commerce lobbied effectively to delay implementation of Yemen's General Sales Tax, designed to reduce Yemen's dependence on oil revenue for state income. The government must also take significant steps to improve the investment climate for businessmen so they can see tangible benefits in joining international trade regimes. The first priority for Yemen's business community is reducing smuggling. In some cases, as much as fifty to seventy percent of one market is dominated by smuggled goods and legitimate Yemeni business suffer. If WTO accession and reduced smuggling can be linked, the business community may be swayed to support accession.